

June 13, 2014

Investment Grade Credit

Europe

## European Banks

### When Will Crédit Agricole Call Its Non-Steps?

**We were initially surprised by Agricole's call of its retail non-step \$550m 7% earlier this year, but this entirely fits with a strategy of maximizing grandfathering buckets. Analysing its €9.3bn of 'grandfatherable' Tier 1s, we believe the \$1.5bn 7% prefs should not be called before 2017, and the €6% €550m even later.**

**We took Agricole's €9.3bn of Tier 1 as at FY12** as our starting point (disclosed by the EBA), which is its maximum grandfathering amount, and reconciled it with individual bonds, as shown in Exhibit 1 overleaf. Taking the grandfathering limit to 80% for this year, Agricole currently has an 'excess' of €750m. Looking at the most expensive bonds outstanding (coupons) and the excess to neutralise, we assume the bank will call its \$1.35bn 9.75% in December.

**In FY15, we expect Agricole to call its \$500mn 7.375% prefs**, according again to the grandfathering limit (then down to 70%), taking into account our assumption of FY14 calls and also Tier 1s with step-ups in FY15, which will cease to get grandfathering value.

**The \$1.5bn 7% should be called in FY17** according to the analysis running forward, and for the €550m 6%, it could well be that this remains outstanding to the end of the grandfathering period (2022). This is because Agricole has a number of step-up Tier 1s in 2018 and 2019 which will cease to be grandfathered, and 'open up' the limit, to be filled by non-called non-steps.

**We remain buyers of the 7% and 6%**, with spreads to expected call dates of 30 January 2017 for the 7% and, conservatively, 30 January 2018 for the 6% at z+556bp (6.4% YTC) and z+531bp (5.8% YTC). See Exhibit 3 on page 3 for a call date scenario analysis.

#### Trade recommendations

Ticker	Type	Ccy	Cpn	Maturity	Offer	YTC(%) to 30-Jan of:		Z-t-C to 30-Jan of:	
						2017	2018	2017	2018
ACAFP	Tier 1	\$	7	Perp	101.40	6.4	6.6	556	531
ACAFP	Tier 1	€	6	Perp	100.7	5.7	5.8	533	531

Source: Bloomberg, Morgan Stanley Research

#### Risk Factors

Choice of bonds to call will not only be influenced by grandfathering and coupon cost; other factors will be how the Tier 1 has been hedged (swap gains), or choice of currency, future leverage ratio requirements and cost of issuing AT1 as a replacement.

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Exhibit 1

## Crédit Agricole: Legacy Tier 1 Grandfathering Scenario Analysis

In EUR million	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Step-up		329	289	40	1,350	1,653	215						
Non-step	3,025	371	120	817									
AT1								1,000			1,293		626
T1 grandfathering allowance	7,450	6,519	5,588	4,656	3,725	2,794	1,863	931					
Old T1 securities outstanding at end of year if no non-step called	8,211	6,885	6,226	6,186	3,727	2,074	1,859	1,859					
Excess T1 end of year if no non-steps called this year	761	365	638	1,529	2	-720	-4	927					
Non-step T1s calls expected scenario	997	369		1,108									
Expected date of non-step call	12/26/2014	04/19/2015		01/30/2017									
<b>Excess T1 end of year over grandfathered limit under non-step calls expected scenario</b>	<b>-245</b>	<b>-11</b>	<b>631</b>	<b>416</b>	<b>-2</b>	<b>-722</b>	<b>-6</b>	<b>925</b>					

Source: Morgan Stanley research, Bloomberg, Crédit Agricole; AT1 is not included in legacy Tier 1s.

Exhibit 2

## Crédit Agricole T1 Hybrid Securities

Security	ISIN	Step/Non-step/AT1	Step-up date	Next call date	Amount in ccy	Currency	Amount in EUR
ACAFF 7 10/29/49	XS0173838847	Non-step		Called	0	USD	0
ACAFF 7 01/29/49	XS0161441000	Non-step		30/07/2014	1,500,000,000	USD	1,108,319,787
ACAFF 6 12/29/49	NL0000113868	Non-step		30/07/2014	550,000,000	EUR	550,000,000
ACAFF 7 3/8 10/29/49	FR0010533554	Non-step		19/10/2014	500,000,000	USD	369,439,929
ACAFF 9 3/4 06/29/49	FR0010772244	Non-step		26/12/2014	1,350,000,000	USD	997,487,808
ACAFF 0 12/29/49	FR0010161026	Non-step		04/02/2015	371,232,000	EUR	371,232,000
ACAFF 4.13 11/29/49	FR0010248641	Step		09/11/2015	328,950,000	EUR	328,950,000
ACAFF 5.136 12/29/49	FR0010291997	Step	02/24/2016	24/02/2016	198,600,000	GBP	248,763,074
CARPP 0 06/29/49	IT0004743818	Non-step		6/28/2016	120,000,000	EUR	120,000,000
ACAFF 5 1/2 08/29/49	FR0010359794	Step	08/11/2016	11/08/2016	59,700,000	CAD	40,619,429
ACAFF 6.637 05/29/49	US225313AA37	Non-step		31/05/2017	889,928,000	USD	657,549,874
CACEIS 6.315 perp	-	Step	11/28/2017	11/28/2017	40,000,000	EUR	40,000,000
ACAFF 5.04 12/29/49	NZCASP0001S5	Non-step		19/12/2017	250,000,000	NZD	159,907,893
ACAFF 8.2 03/29/49	FR0010603159	Step	03/31/2018	31/03/2018	850,000,000	EUR	850,000,000
ACAFF 10.653 09/29/49	FR0010670422	Step	09/30/2018	30/09/2018	500,000,000	EUR	500,000,000
ACAFF 8 3/8 10/29/49	USF22797FK97	Step	10/13/2019	13/10/2019	1,000,000,000	USD	738,879,858
ACAFF 8 1/8 10/29/49	FR0010814418	Step	10/26/2019	26/10/2019	291,050,000	GBP	364,564,414
ACAFF 7 7/8 10/29/49	FR0010814434	Step	10/26/2019	26/10/2019	550,000,000	EUR	550,000,000
ACAFF 7.589 01/29/49	FR0010575654	Step	01/30/2020	30/01/2020	171,850,000	GBP	215,256,466
ACAFF 6 1/2 06/23/49	XS1055037177	AT1		23/06/2021	1,000,000,000	EUR	1,000,000,000
ACAFF 7 7/8 01/29/49	USF22797RT78	AT1		23/01/2024	1,750,000,000	USD	1,293,039,752
ACAFF 7 1/2 04/29/49	XS1055037920	AT1		23/06/2026	500,000,000	GBP	626,291,727

Source: Bloomberg, Crédit Agricole

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Exhibit 3

## Call Date Scenarios for the Crédit Agricole \$7% and the €6%

ISIN	Type	Ccy	Ticker	Cpn	Next Call	Maturity	Amt os (m)	Offer	YTC (%)	Z-t-C	YTC(%) to the beginning of:				Z-t-C to the beginning of:			
											2015	2016	2017	2018	2015	2016	2017	2018
XS0161441000	Tier 1	\$	ACAPF	7	30-07-2014	Perp	1,500	101.4	-4.9	-510	4.7	6.1	6.4	6.6	443	563	556	531
NL0000113868	Tier 1	€	ACAPF	6	30-07-2014	Perp	550	100.7	0.0	-26	4.7	5.5	5.7	5.8	435	521	533	531

Source: Bloomberg, Morgan Stanley Research

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